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Industry View
In-Line

India Property

New Retail FDI Policy – Sector Lacks Preparedness to Benefit Near Term

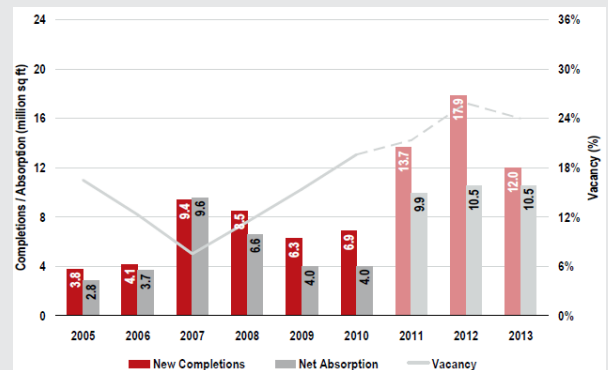
Quick Comment – In a major policy reform, the Cabinet has approved (long pending) 51% FDI in multi-brand (disallowed earlier) and 100% FDI in single-brand retail (51% earlier). Pre-conditions (as per press reports) include: 1) a minimum investment of US\$100mn (with at least 50% in back-end which excludes land, rentals and front-end stores); and 2) retail set-up being limited to cities with a population of at least 1mn as per 2011 census (all major tier I, II and III cities totaling 53 in number qualify). A formal press note from Department of Industrial Policy & Promotion (DIPP) is awaited.

Listed Developers Lack Preparedness – To put retail in perspective for the listed developers, these projects account for the least share in NAV/EPS (under 15%). In addition, the preparedness (in terms of ready or to be ready in 6-18 months retail space/malls) of the developers to benefit from a likely surge in demand appear minimal. DLF has a completed stock of ~2msf mall-space (largely occupied) and only 1.5msf under construction with the expected delivery about two years away. UT has ~ 1.5msf of tenanted retail space with another nine malls under early stages of construction (2-3 years delivery time). Other notable mall developers include Ishaan Plc (ISH.LN: ~1.7msf branded as Commerzone / Inorbit) and Prestige Estates (PEPL.IN: ~2.5msf in Bangalore / southern cities).

Phoenix Mills (Not Covered) is an exception to above since it is a pure retail play (with 14msf of pan-India portfolio, ~40% economic interest) and has 30-40% vacancy in a few upcoming market-city malls.

Our View – We believe that the new retail policy will benefit the listed players only in the longer term in view of minimal stock of retail space (now or in the next 18 months). In addition, the stretched b/s will limit their ability to aggressively invest in this business. Retain OW – OBER, SDL, IBREL; EW – DLF, GPL and JIL.

Pan-India* Supply & Demand of Retail Space



Source: JLLM REIS, Morgan Stanley Research

* Includes top 7 cities – NCR, Mumbai, Bangalore, Pune, Kolkata, Chennai, Hyderabad

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1126	40%	449	44%	40%
Equal-weight/Hold	1176	42%	431	42%	37%
Not-Rated/Hold	108	4%	23	2%	21%
Underweight/Sell	418	15%	115	11%	28%
Total	2,828		1018		

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Industry Coverage:India Property

Company (Ticker)	Rating (as of)	Price* (11/25/2011)
Sameer Baisiwala, CFA		
DLF Limited (DLF.BO)	E (09/06/2011)	Rs203.95
Indiabulls Real Estate Limited (INRL.BO)	O (07/01/2010)	Rs63.05
Jaypee Infratech Limited (JYPE.BO)	E (07/01/2010)	Rs39.35
Oberoi Realty Limited (OEBO.BO)	O (11/25/2010)	Rs219.85
Sobha Developers Ltd. (SOBH.BO)	O (05/25/2010)	Rs230.3
Unitech Corporate Parks Plc (UCP.L)	NA (12/31/2010)	27p
Unitech Limited (UNTE.BO)	NA (12/31/2010)	Rs23.05
Arunabh Chaudhari		
Godrej Properties Limited (GODR.BO)	E (06/28/2011)	Rs659

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